

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Approval of Minutes of May 7, 1998 Meeting

ITEM NUMBER: 2

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: June 3, 1998

INFORMATION: _____

PRESENTER(S): Chairperson

Please see the attached minutes of the May 7, 1998 meeting of the Teachers' Retirement Board.

PROPOSED
MINUTES OF
TEACHERS' RETIREMENT BOARD
OPEN SESSION
THURSDAY, MAY 7, 1998
STATE TEACHERS' RETIREMENT SYSTEM
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA

BOARD MEMBERS PRESENT

Emma Zink, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Gary Lynes
Marty Mathiesen
Michael Mayer
Lillian Raffel
Fred Buenrostro, representing State Controller, Kathleen Connell
Richard Whitmore, representing Superintendent of Public Instruction, Delaine Eastin
Ted White, representing State Treasurer, Matt Fong
Robin Dezember, representing Director of Finance, Craig Brown

STAFF PRESENT

James D. Mosman, Chief Executive Officer
Christopher Waddell, Chief Counsel
Elleen Okada, DCEO, Investments
Michael Carter, DCEO, Client Benefits & Services
Laurence Martin, DCEO, Information and Financial Services
Peggy Plett, DCEO, Administration
Jennifer DuCray-Morrill, DCEO, Governmental Affairs & Program Development
Ken Costa, Director, START Project
Ted Hynson, Chief, Administrative Services
Mary Miles, Administrative Assistant

OTHERS PRESENT

Michael Carter, Watson Wyatt
Mark Adamic, Visionary Integrated Professionals
Maureen Rice, SPL Worldgroup
Paula Grose, Manager, Information Technology Division
Janice Hanson, Analyst, Information Technology Division
Les Phillips, San Diego County
John Harbour, Oxnard Federation of Teachers
Beverly Carlson, California Teachers Association
Ernest Ketterning, CA Council for Adult Education
Dorothy Moser, United Teachers Los Angeles - Retired
Dolores Sanchez, California Federation of Teachers
David Hawkins, Faculty Association of California Community Colleges
Phyllis Pipes, California Federation of Teachers
Ellen Logue, California Teachers Association – Retired
Loretta Toggenburger, United Teachers Los Angeles
John Baley, Faculty Association of California Community Colleges

A quorum being present, Chairperson Zink called the meeting to order at 9:30 a.m.

II. **APPROVAL OF MINUTES OF APRIL 2, 1998 MEETING**

MOTION duly made by Mr. Mathiesen, seconded by Mr. Fenimore, and carried to approve the Board Meeting Minutes of April 2, 1998.

III. **ANNOUNCEMENTS**

There were no announcements.

IV. **COMMITTEE REPORTS**

INVESTMENT COMMITTEE: Chairperson Zink reported that the Committee, in open session, received a report on the role of Alternative Investments and asked staff to refine the policies for next month. The Committee reviewed the Non-U.S. Equity Structure and approved staff recommendation for increasing non-US Equity Active Management. The Committee approved staff's recommendation to take an opposed position on the tobacco divestment and music lyrics depravation legislation. Chairperson Zink also reported that the policy refinements on Real Estate are due next month and that the Committee will review the status of the Fiduciary Council in July.

In closed session, the Committee approved a \$60 million investment with Thomas Cressey Equity Partners VI by a unanimous vote.

BY CONSENSUS, the report of the Investment Committee was accepted.

AD HOC GOVERNANCE COMMITTEE: Chairperson Zink brought forth a recommendation from the Committee to adopt the new travel policy as amended. The amendments included the requirement that each Board member submit a one-page description of the proposed travel; that all Board travel be paid for by the System; and that travel be reported on fiscal year basis.

MOTION duly made by Mr. Fenimore, seconded by Mr. Mathiesen, and carried to approve the Board Travel Policy as amended.

BY CONSENSUS, the report of the Ad Hoc Governance Committee was accepted.

BENEFITS AND SERVICES COMMITTEE: Ms. Bodle reported that the Committee received a report on the Client Advisory Committee meeting and Level of Service Standards.

BY CONSENSUS, the report of the Benefits and Services Committee was accepted.

V. **CHIEF EXECUTIVE OFFICER REPORT**

Mr. Mosman reported that improvements to the Board Room would be started in August and should be completed in approximately 18 months.

VI. **CASH BALANCE PLAN UPDATE**

Ms. DuCray-Morrill provided an update on the Cash Balance Plan and requested that the Committee adopt the proposed overlay concept and to modify the Cash Balance benefit structure to reflect optional employee participation in the Program. Discussion ensued regarding the overlay process and the perceived windfall that would occur for a selected number of members.

Ms. Moser, CRTA (Retired), requested that the Board study and gather statistics before making a final decision on the proposed changes to the Cash Balance Plan. Ms. Sanchez, CFT, stated her support of the overlay proposal.

MOTION duly made by Mr. White, seconded by Mr. Fenimore to adopt the overlay concept with the specification that the changeover would be purchased by the alternative method of purchasing defined benefit service credit with the Cash Balance account. Also, further directed staff to examine if the System could give the alternative of purchasing service credit in the defined benefit plan at changeover time back up to the point that it is equal to the cash balance service credit.

Mr. Lynes arrived at 10 a.m.

Discussion ensued. Ms. Sanchez stated that, as co-sponsors of the bill, CFT would oppose the proposed change to have the member pay the differential amounts. Mr. Hawkins, FACCC, stated his concerns on the term "windfall" of credit.

Mr. Mathiesen called for the question. Motion failed. Mr. Lynes and Mr. Dezember abstained.

MOTION duly made by Ms. Bodle, seconded by Ms. Raffel, and carried to adopt the Cash Balance Plan overlay proposal as recommended by staff. Mr. Lynes and Mr. Dezember abstained.

MOTION duly made by Mr. Whitmore, seconded by Ms. Raffel to adopt the proposal to modify the benefit structure of the Cash Balance Plan to reflect optional employee participation.

Discussion ensued. Mr. Phillips, San Diego County, requested that the implementation of this provision be held off until July 2001 due to the modification and administrative cost and time constraints.

Ms. Raffel called for the question.

Motion carried. Mr. Dezember abstained.

VII. **DEFERRED RETIREMENT OPTION PLAN**

Ms. DuCray-Morrill and Mr. Carter representing Watson Wyatt, presented information on the Deferred Retirement Option Plan (DROP).

VIII. **UPDATE ON LEGISLATION**

STATE: Ms. DuCray-Morrill provided an update on benefit enhancement alternatives. Staff was requested to provide information on the assumption used for the average years of experience at retirement and a comparison of costs and benefits of non Social Security plans using the 70% to 75% target replacement ratio. Ms. DuCray-Morrill reported that there was no known study indicating that increasing retirement benefits retains teachers.

Ms. DuCray-Morrill distributed a copy of AB 2804 (Committee on PER&SS) which, when the System becomes fully funded, would continue the General Fund contributions associated with Elder Full Funding to improve the STRS benefit improvements and accommodate other education objectives. Staff will analyze the provisions of the legislation for the next Board meeting.

Ms. DuCray-Morrill requested that the Board support the Legislative Analyst's recommendation to conduct a valuation as of June 30, 1998. Discussion ensued. Ms.

Carlson, CTA, and Ms. Toggenburger, UTLA, both requested that the Board not approve the proposed actuarial valuation request because no advance notice had been given on this issue. Mr. Buenrostro requested that this proposal be placed in a future Board agenda item.

Staff was directed to schedule a workshop regarding the benefit enhancements on Wednesday, June 3. Mr. Buenrostro also requested that the workshop include the additional information on the DROP plan from Watson Wyatt and an analysis on Elder Full Funding on how the current statute operates in terms of the schedule/cycle of payment.

Ms. DuCray-Morrill presented the following legislation for the Board's consideration:

AB 385 (Goldsmith) – This bill establishes home rule school districts. Staff recommended that the Board adopt a neutral if amended position.

MOTION duly made by Ms. Raffel, seconded by Ms. Bodle, and carried to adopt a neutral if amended position on Assembly Bill 385. Messrs. Whitmore, Buenrostro, and Dezember abstained.

AJR 63 (Prenter) – This bill would encourage the President and Congress to approve the appropriation of specified funds from the sale of the Elk Hills Naval Petroleum Reserve. Staff recommended that the Board co-sponsor the bill with the California Retired Teachers' Association.

MOTION duly made by Mr. Fenimore, seconded by Ms. Bodle, and carried to co-sponsor Assembly Joint Resolution 63. Mr. Dezember abstained.

SB 2224 (Lee) – This bill would provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Staff recommended that the Board defer this item until after the June benefit workshop.

FEDERAL LEGISLATION: Ms. DuCray-Morrill stated that the Mandatory Social Security hearing has been scheduled for May 21.

IX. TRAVEL REPORT

Mr. Mosman also requested approval for Ms. DuCray-Morrill to attend the hearing on Mandatory Social Security in Washington, D.C., in May.

MOTION duly made by Mr. Whitmore, seconded by Mr. Fenimore to approve the Request for Travel as amended.

MOTION duly made by Mr. Lynes, seconded by Ms. Bodle, and carried to approval the travel summaries as presented.

X. APPROVAL OF CONTRACTS EXCEEDING \$500,000

Mr. Hynson presented this item.

MOTION duly made by Mr. Fenimore, seconded by Mr. Mayer, and carried to approve the contracts exceeding \$500,000 as presented.

XI. START PROJECT UPDATE

Mr. Costa provided a status update on the START Project. Ms. Hanson presented an overview of the Data Conversion Project. Mr. Adamic of Visionary Integrated Professionals and Ms. Grose presented an overview of the Testing Phase.

XII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC**

There were no statements.

XIII. **ADJOURNMENT**

Chairperson Zink went directly into Closed Session to discuss investment issues at 2:05 p.m.

At 2:05 p.m., Chairperson Zink returned to open session. There being no further business to conduct, Chairperson Zink adjourned the meeting at 2:06 p.m.

James D. Mosman, Chief Executive Officer
and Secretary to the Teachers' Retirement Board

Emma Zink, Chairperson